ABP and fossil fuels
How our pensions are fueling the climate crisis
Table of Content

page  3  Introduction

4  Fossil fuel investments by ABP

5  Financial institutions have to take own responsibility

6  Why ABP should include Scope 3 in its carbon footprint methodology

7  The risks of fossil fuels for investors and for the climate

7  Disruptive transition

8  The limits of carbon footprinting

8  ABP and coal

9  Engaging or divesting?

10  What ABP should do

11  Colophon
Introduction

ABP is the biggest pension fund of the Netherlands, with assets of over €430 billion. It is also the 5th largest pension fund in the world. As the national pension fund for government, defense and education employees, ABP has 3 million pension savers and pensioners in total. ABP invests via APG Asset Management in over 4,500 companies worldwide. 93% of its investments are outside the Netherlands.

Over the years, there has been growing recognition that ABP’s investments in the fossil fuel industry have serious implications for its climate impact and financial performance. Both employees and employers (including major cities and universities) have spoken out in petitions and letters to ABP calling on their pension fund to divest—i.e. to break the ties with the fossil fuel industry and phase out current investments in coal, oil, and gas companies.

ABP claims that the carbon footprint of its equity portfolio has diminished by 28% as compared to 2014. But this is just a small part of the picture. Equity only comprises 33% of ABPs portfolio and ABP only calculates the direct operational (‘scope 1’) and the supply chain (‘scope 2’) emissions of its equity portfolio. The calculations do not include the emissions from the use of sold products (‘scope 3’). Not evaluating that third scope, particularly in the case of fossil fuel companies, obscures the actual climate consequences.

A recent report prepared by independent not-for-profit consultancy Profundo gives a better picture of the true impact of ABPs investments, albeit still incomplete, due to lack of transparency by ABP about its investments. The report, commissioned by Both ENDS, Fossielvrij NL, Greenpeace Netherlands and urgewald, concludes that the emissions caused by ABP’s investments were between 29 million tons CO2e6 and 97 million tons CO2e in 2018. The figure of 29 million tons only refers to scope 1 and scope 2 emissions and rises to 97 million tons, if scope 3 emissions are included. 97 million tons is more than half of the CO2e emissions of the entire country of the Netherlands.

This is still an underestimation since only 47% of the invested value in real estate and 65% in corporate bonds is disclosed by ABP. In addition, 29%8 of ABP’s investments are in financial institutions, which in turn invest in fossil fuel companies. The emissions caused by these investments are not included in the calculations.

Profundo’s analysis of attributable CO2 emissions from ABP’s investment portfolio found that the total emissions from four asset classes—equity investments, corporate bonds, sovereign bonds, and real estate—has decreased by 9.6% from 108 million tons CO2e in 2015 to 97 million tons CO2e in 2018. This is much less than the 28% reduction that ABP claims.

ABP has announced it wants to measure its whole carbon footprint and not only the carbon footprint of its equity investments. This is laudable and this report from Profundo is meant to help ABP in this undertaking.

2 ABP Annual report 2018, page 33
4 Six cities – Amsterdam, Den Haag, Breda, Nijmegen, Utrecht, Maastricht—and three universities—Groningen, Eindhoven, Utrecht
5 ABP Annual report 2018, page 32
6 CO2 (equivalent)
7 Email communication with ABP September 2019
8 ABP Annual report 2018, page 34
9 Verslag Duurzaam en Verantwoord Beleggen 2018, page 60
ABP claims to have reduced its investments in fossil fuels, but its own reports show otherwise. ABP’s investments in the fossil fuel industry went up from €14 billion in 2015 to €16.5 billion at the end of 2018. In the share of investments in the energy sector, oil went up from 25% to 29% between 2015 and 2018, coal reduced from 8% in 2015 to 5% in 2018 and gas went down from 34% in 2015 to 30% in 2018 but up from 28% to 30% between 2017 and 2018.

In December 2015 when the Paris Climate Agreement was signed, ABP’s coal investments totaled €3.6 billion. In spite of ABP’s supposed decarbonization efforts, not much has happened since then. Our analysis of its March 2019 holdings list shows that ABP’s coal investments still total over € 3.5 billion.

For oil and gas, as shown in Figure 1, the research by Profundo shows that from 2015 to 2018 there was a 21% increase in the total emissions generated by oil & gas companies in ABP’s equity portfolio. ABP's corporate bond portfolio did not score any better: a 26% increase in the total emissions generated by oil & gas companies.

Companies in the oil & gas sector—including companies such as BP, Shell and Exxon Mobil—contributed the most to the equity portfolio emissions of ABP, at approximately 29 million tCO₂e in 2018, accounting for 38% of ABP’s total equity portfolio emissions. From 2015 to 2018 there was a 21% increase in the total emissions generated by oil & gas companies in ABP’s equity portfolio. Similarly, emissions from companies engaged in natural gas utilities—such as Tokyo Gas, UGI Corp and GAIL India—increased by 75% between 2015 and 2018 to approximately 1.2 million tCO₂e (See Figure 2).

During 2018, ABP doubled its investments in Gazprom and tripled its investments in Rosneft, Russian companies which are drilling for oil and gas in the Arctic region and are planning massive expansions in the Arctic area. ABP’s investments in Lukoil, a company that is in conflict with indigenous Komi people in Russia over oil spills, doubled between December 2017 and March 2019 to 337 million.

ABP is also still investing millions in Enbridge and Transcanada, companies that are building pipelines in Canada and the US for the expansion of tar sands oil, the most polluting oil on the planet. Investments in ExxonMobil went up from € 413 million in December 2018 to € 560 million in March 2019, making it one of the biggest investments by ABP. ExxonMobil is set to spend $167 billion on new oil and gas in the next decade, the most of all the oil and gas majors.

Figure 1: Changes in ABP attributable total emissions from its equity portfolio

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10 ABP Verslag Duurzaam en Verantwoord Beleggen 2018, pag 33
11 ABP Verslag Duurzaam en Verantwoord Beleggen 2018, pag 34
12 “Dirty and Dangerous: The fossil fuel investments of Dutch pension fund ABP”, BothEnds, Urgewald, Fossielvrij NL, May 2017
14 see Figure 7 in Profundo report, page 23
15 https://fd.nl/economie-politiek/1309195/rosneft-vraagt-fiscale-doucheurtjes-voor-ontsluiting-energiereserves-noordpool
16 http://activatica.org/problems/view/id/518/version/1198
Norwegian financial service provider and pension manager Storebrand has 98 fossil companies on its Exclusion List, including a range of companies that ABP still massively invests in, like the Chinese oil company CNOOC, the coal power company Duke Energy and the Canadian tar sands oil producer Suncor. Danish MP Pension is selling its stakes in the 10 biggest oil companies after deciding they haven’t done enough to live up to climate goals set out in the Paris agreement. Investors such as the NN Group, KLP and AXA have excluded most tar sands and coal companies from their portfolios. What stops ABP from doing the same?

Financial institutions have to take own responsibility

Given the urgency and scope of the climate crisis, it is clear that financial institutions cannot rely on governments or corporations to do the job alone. It is also clear that pension funds cannot rely on the market. As the Dutch Central Bank DNB Sustainable Finance Platform wrote: "Despite the fact that empirical evidence for climate change is overwhelming, markets do not seem to price in the risk." Financial institutions have to take their own responsibility.

In order to have a 50 percent chance of meeting the Paris Agreement’s target of staying “well below” 2°C of additional warming, we must refrain from burning much of the fossil fuel reserves currently listed as assets on the balance sheets of energy companies.

Hence all production from new oil and gas fields—beyond those already in production or development—is incompatible with reaching the world’s climate goals. Yet the oil and gas industry is set to spend US$4.9 trillion over the next ten years on exploration and extraction of new fields. And although the United Nations and IPCC have long warned that there is no room for new coal, 552 GW of new coal plants are still in the pipeline—an amount over two times as large as the United States' entire coal plant fleet.

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18 Normalization is needed in order to make a more accurate comparison between two years, i.e. the 2015 baseline and the most recent year 2018. Normalization here limits the potential causes of changes in attributable emissions from four (share price fluctuations, number of shares, enterprise value and company emissions) to two (number of shares and company emissions). Normalizing the invested value—the numerator in the attribution factor formula—from 2018 to 2015 figures implies calculating the number of shares in 2018 and applying the 2015 share price as invested value is the number of shares held multiplied share price. If after normalization of the invested value there is a difference between 2015 and 2018 this is due to changes in the number of shares.

19 https://www.storebrand.no/en/sustainability/exclusions/_attachment/10739?_ts=16bbbf96b33
22 https://www.nature.com/articles/nature14016
23 https://www.globalwitness.org/en-gb/blog/big-oil-set-to-spend-5-trillion/?fbclid=IwAR3NElUtMz92EVt73ra8J_dMfs_kbzyw-wlmzXKX1wuOC_44InAQKxQ
Why ABP should include Scope 3 in its carbon footprint methodology

The vast majority of a fossil fuel company’s emissions are associated with its product—coal, oil, or gas—burnt by the final consumers.

For example, not including Scope 3 could favor an oil company for saving energy on oil rigs by using LED-lighting or more efficient drilling techniques without addressing the real problem of pumping the oil to be burned. Some oil and gas companies can appear carbon-efficient if judged solely on their Scope 1 and 2 emissions, particularly if they have high revenues and are relatively carbon-efficient in their process for extracting and distributing fossil fuels.

But the true impact of a fossil-fuel company is in the use of the products it sells and this is captured within a company’s Scope 3 emissions. While there are a number of issues related to current emissions estimations methodologies (e.g., reliance on companies’ self-reporting their Scope 1, 2, 3 emissions) and there is a proportion of double counting that cannot yet be resolved given the current lack of standardized approach, more and more companies are publishing their Scope 3 emissions, and independent sources are improving this data reporting so it is possible for ABP to include Scope 3 in a meaningful decision framework.25

Not evaluating Scope 3 emissions in the case of fossil fuel companies obscures the actual climate consequences and leads investors like ABP to underweight their contribution to their carbon footprint.

THINGS ARE HEATING UP FOR ALL OF US

Over the past 20 years, global GHG emissions have increased. Even in the unlikely scenario that all countries will honor their pledges to the Paris Agreement, global temperature will still rise by at least 2.7 degrees Celsius.

Between 2000 and 2016, the number of people exposed to heat waves worldwide increased by around 125 million, and eight out of the 10 hottest years on record have been in the last 10 years. During the same period we’ve also seen the warmest ocean on record, with 2018 being the hottest yet.

Currently, around 30% of the world’s population is exposed to deadly high temperatures for a period of 20 days or more per year. This number is expected to increase to 48%. In fact, extreme heat events are responsible for more deaths annually than hurricanes, lightning, tornadoes, floods, and earthquakes combined.

The tragic truth is that people in the Global South are experiencing these changes earlier and harder than people in the Global North. At the same time, women and men in the Global South are also front line environmental defenders, fighting the expansion of fossil fuel extraction in their localities. Investors also have a proactive role to play in this fight, aligning their investments to 1.5 degrees as the red line for global warming.
The risks of fossil fuels for investors and for the climate

The potential for climate change to trigger the next financial crisis is enormous.29 ABP was severely hit during the financial crisis in 2008. So why is ABP exposing itself so heavily to climate change risks? Different types of risks could strike the financial system and ABP: (1) stranded assets, (2) losses in the insurance system and (3) climate change liability.

1. Stranded Assets
Global action to keep climate change below 1.5°C threatens the business model of oil, gas and coal companies. Mark Carney, Governor of the Bank of England, has warned that vast reserves will become unburnable stranded assets, threatening investors with huge losses.30

2. Losses in the insurance system and physical risks
Since the 1980s, the scale of weather-related insurance losses has risen fivefold to about $55 billion a year. Uninsured losses are twice as much again. EU member countries incurred economic losses caused by weather and climate-related extremes up to approximately € 436 billion between 1980 and 2016.31 EU-wide studies in 2016 estimated projected damages will triple by the 2020s.32 The risks are multiple and so are the insurance sectors that will be hit: health risks (air pollution, heat), risks to property (flooding, extreme weather, forest fires), risks to harvests (drought, heavy rainfall, flooding), etc. As ABP is a big investor in insurance companies, these are risks for ABP as well.

3. Climate Change Liability
Climate litigation is on the rise and fossil fuel companies and governments are facing an increasing number of court cases in many different jurisdictions. There are more than 600 legal cases filed by individuals and non-governmental organizations that assert the rights of people impacted by the climate crisis around the world.

Many analysts are making comparisons with tobacco cases, where companies were forced to pay billions. Climate litigation court cases are being put forward by individuals, NGOs, municipalities and cities like New York and San Francisco. Some cases claim compensation from fossil fuel companies for adaptation costs, other climate cases demand emission reductions by fossil fuel companies, such as the case started by Milieudefensie, Greenpeace Netherlands, Both ENDS, Fossielvrij NL and others against Shell. As legal and financial risks increase for fossil fuel companies, legal and financial risks increase for investors as well.

Disruptive transition

An orderly, socially inclusive pathway to a 1.5°C world is becoming more and more unlikely. As governments are slow in responding to the urgency of climate change, extreme weather disasters or other climate change related disasters could spark sudden and rapid government action. As Foreign Policy writes: "This kind of scenario—protracted denial followed by panic-driven decarbonization—is what concerns the central bankers most of all. And it is closest to our reality."33 This is what the Dutch Central Bank calls the disruptive energy transition scenario. A famous example is the Fukushima disaster in 2011 which triggered the 'Atom Ausstieg' in Germany, resulting in big financial losses for energy companies. According to the Dutch Central Bank, abrupt implementation of impactful policies could also be triggered by "Legal action against governments forcing governments to take action. Governments worldwide are increasingly facing lawsuits for taking insufficient action against climate change." Notably, the Urgenda court ruling in the Netherlands in 2015 and confirmed in appeal in 2018 established that the government of the Netherlands has to step up its efforts in limiting greenhouse gas emissions.34

The DNB estimates that losses could be sizable, especially for pension funds: "However, the disruptive energy transition scenarios affect not only the carbon-intensive industries, but also the economy at large. Thus, the total losses for financial institutions could be sizeable: up to 3 percent of the stressed assets for banks, 11 percent for insurers and 10 percent for pension funds."35

References:
34 An energy transition risk stress test for the financial system of the Netherlands, DNB, 2018, page 22
35 An energy transition risk stress test for the financial system of the Netherlands, DNB, 2018
The limits of carbon footprinting

Setting a goal for reducing the carbon footprint is useful, but is in itself not enough. GHG information of investee companies is backward looking, and current high emitters could be future low emitters and vice versa. Therefore, additional information is needed to identify the companies that fit a forward-looking low carbon scenario. ABP’s reliance on targets of CO2 footprint reductions that do not include Scope 3 emissions has lead to a disconnect in investment behaviour: a carbon footprint is claimed to be reduced but at the same time significant increases / active acquisition of oil and gas companies occurred.

Are the investment plans of companies ABP invests in, in line with a world that does not exceed 1.5 global warming? That is the crucial question. And for a whole range of companies that ABP invests in, the answer is clearly no: these companies are on a collision course with the Paris climate goals.

ABP and coal

Coal is the biggest single source of CO2 emissions. The most recent report from the UN’s Intergovernmental Panel on Climate Change is loud and clear: To limit the worst climate disasters and irreversible damage, global use of thermal coal needs to drop by 78% by 2030.36 For Europe, this means that coal must be completely phased out by 2030. And as UN Secretary General Guterres has emphasized, all development of new coal plants needs to be stopped.37

In contrast to other leading European investors such as the Norwegian Government Pension Fund, Allianz, AXA, Generali, Munich Re, Amundi, BNP Paribas Asset Management and others, ABP continues to hold on to its coal investments. While AXA, for example, has divested some 200 coal companies since 2015, ABP in its 2018 sustainability report proudly states that it has divested 7 (!) companies: RWE and 6 further coal companies it does not name.38 But while ABP has indeed sold its shares in RWE, its latest holdings list shows that it continues to hold €112 million in RWE bonds. RWE is the company that is threatening the Dutch government with legal action, if the government continues with its plan to close all Dutch coal fired power stations in 2030. So investments of ABP support a company that is undermining Dutch climate policies.39

In December 2015 when the Paris Climate Agreement was signed, ABP’s coal investments totaled €3.6 billion.40 Our analysis of its March 2019 holdings list shows that ABP’s coal investments still total over €3.5 billion (See Figure 3). All in all, ABP is invested in 96 coal companies worldwide.

And although the research by Profundo suggests that emissions from the Coal Mining and Utility sector have decreased, 38 of the companies in ABP’s portfolio are planning to collectively build over 89 GW of new coal-fired capacity—an amount equal to the combined coal plant fleets of Germany and Japan. The money of pension savers that ABP has invested is now being used to build the very coal plants that UN Secretary General António Guterres has warned against.

And ABP holds investments in many of the world’s top CO2 emitters, such as American Electric Power, Duke Energy, China Energy, Korea Electric Power Corporation, Sasol and RWE. Not even the largest coal plant operators have yet been excluded from its portfolio. In total, ABP holds investments in companies whose installed coal-fired capacity amounts to 558 GW, one fourth of the world’s total coal-fired capacity.

Figure 3: ABP Coal Investments (millions of Euros)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate Bonds</th>
<th>Shares &amp; Convertible Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
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<td>3000</td>
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<tr>
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</tr>
<tr>
<td>2019</td>
<td>7000</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Investment data as of 31 December for 2015-2018; as of 31 March for 2019.41

38 Verslag Duurzaam en Verantwoord Beleggen 2018, pag 18
40 „Dirty and Dangerous: The fossil fuel investments of Dutch pension fund ABP“, BothEnds, Urgewald, Fossilvrij NL, May 2017
41 https://www.abp.nl/over-abp/duurzaam-en-verantwoord-beleggen/hoe-beleggen-we.aspx
In a world where coal must rapidly become obsolete, ABP is not only failing its climate duty; it is also risking the money of its pensioners. Investments in the coal industry are subject to significant economic risks through rising carbon prices, competition through renewables, stronger climate regulation and the compliance costs of stricter emissions standards.42

Four years after the Paris Agreement was signed, ABP needs to stop investing in our climate’s worst enemy. It should follow the example of Storebrand43, KLP44, ING, Allianz and others and phase coal out of its portfolio.

The Europe Beyond Coal campaign has captured the emerging policy shift on coal finance and underwriting in a briefing: The coal break-up - How financial institutions are phasing-out support to European coal utilities. The paper chronicles the rapid development of ever more sophisticated coal policies45 by financial institutions and how they impact the most polluting European utilities.46

Research from the Institute for Energy Economics and Financial Analysis (IEEFA) reveals over 100 major global financial institutions have introduced policies restricting coal funding. The report ‘Over 100 Global Financial Institutions Are Exiting Coal, With More to Come’ finds global capital is fleeing the coal sector at an electrifying rate.47 Some financial institutions are taking even larger steps. Last July, the European Investment Bank announced a draft policy that would phase out all fossil fuel finance by the end of 2020.48

Engaging or divesting?

"If you are out, you have no influence anymore" is the argument used by ABP. But is that true? Companies are keen to have a large investor like ABP on board. If ABP divests, it can still apply the carrot of potentially re-investing, provided that companies show that they have a phasing out plan for their fossil fuel assets that is aligned with the 1.5°C goal. Engagement is a poor fig leaf for continuing to invest in companies that are building new coal plants or tar sands pipelines or developing new oilfields in the Arctic. And there is no good reason to stay invested in companies like Peabody Energy or Whitehaven Coal, whose entire business models revolve around coal. The activities of these companies put us all at risk—economically and ecologically—and they should be excluded for the same reason that ABP excludes companies that are active in tobacco and nuclear weapons.

While there are individual cases where an engagement strategy may be warranted, this has to be combined with very specific time-bound asks that, if they are not fulfilled, lead to divestment. Up to now, we, however, see no signs that ABP has effectively steered individual companies toward compliance with the Paris goals. On the contrary: ABP has instead missed a whole range of opportunities to vote in favor of climate shareholder resolutions49 and has increased investments in oil and gas companies.

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45 https://beyond-coal.eu/data/
46 https://beyond-coal.eu/2019/02/26/the-coal-break-up/
49 https://follow-this.org/nieuws/investors-briefing-bp-equinor/
**What ABP should do**

**ABP needs to:** Immediately halt all new investments in fossil fuel companies. Commit itself to phasing out existing fossil fuel investments. Rigorously push companies it invests in to align their goals with a maximum of 1.5°C and set transparent and time bound goals for its shareholder engagement.

<table>
<thead>
<tr>
<th>Coal</th>
<th>Oil and Gas</th>
<th>Engagement and voting</th>
</tr>
</thead>
</table>
| **ABP should commit to:** | **ABP should commit to:** | **ABP should step up its engagement policies. ABP has missed a number of opportunities to vote for climate shareholder resolutions, at AGMs of Shell, Equinor and BP.**
| • Making a full exit from coal investments. | • Selling off all its investments in oil and gas companies and permanently exclude the oil and gas industry from its investment portfolio by the end of 2020; | • ABP should announce beforehand publicly how it will vote during AGMs, like Aegon has done, and support climate shareholder resolutions. ABP should be transparent about its voting policy during AGMs and explain for each climate shareholder resolution why and how it has voted. |
| As a first step, the following companies should be divested: | • Use 2019 and 2020 to apply stakeholder influence with a requirement that these companies should stop investing in new oil and gas developments and should align their investments with a 1.5°C scenario; | **ABP should vote against the appointments of directors, if the company in question:** |
| • Companies with coal expansion plans, including the construction/development/ expansion of coal plant/mine/infrastructure, and life extension of existing coal plants through retrofit, acquisition of existing coal assets; | • If by the end of 2020, these companies are still investing in new fossil fuel exploration, ABP must divest. This sends a strong message to these companies as well as the market and ABP’s peer pension funds. | • does not publish its GHG emissions; or |
| • Companies producing more than 20 million tons of coal per year, or with over 10 GW of coal power capacity; | | • does not have a GHG reduction target that is in line with a 1.5 degree scenario. |
| • Companies that generate more than 30% of revenues from coal mining or produce more than 30% of power from coal. This percentage should be gradually lowered, as investors like Storebrand and Allianz are doing. | |

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52 Aegon Netherlands and AAM NL support climate resolutions at oil and gas companies’ AGMs The Hague, May 12 2019
Colophon

ABP and fossil fuels: how our pensions are fueling the climate crisis

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Coal fired power plant in Rhenish lignite mining area
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